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OCT 20 1992

Federal Communications Commission
Office of the Secretary

JOSEPH W. MILLER
SENIOR ATTORNEY

October 20, 1992

ORIGINAL
FILE

BY HAND DELIVERY

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

RE: Open Network Architecture Tariffs of Bell Operating Companies, CC Docket No. 92-91

Dear Ms. Searcy:

Enclosed for filing at the request of the Commission staff are four copies of the Opposition of WilTel, Inc. ("WilTel") concerning the ONA tariffs filed by the Bell Operating Companies. The original of the Opposition was filed with the Commission staff on Friday, October 16. The attached copies are identical to the original except that Figures 1, 2 and 3 have been redacted.

When it filed the original on October 16, WilTel explained that certain information referenced in the Opposition was obtained pursuant to nondisclosure agreements WilTel executed with the BOCs, as required by the SCIS Disclosure Order, 7 FCC Rcd 1526 (CCB 1992). WilTel stated that in its view, none of the information contained in its Opposition was "competitively sensitive" within the terms of the SCIS Disclosure Order. However, because the materials WilTel reviewed did not specify which information the BOCs deemed to be competitively sensitive, WilTel was unable to identify and redact from its Opposition any such information.

As a result, WilTel believed that the only way it could protect itself against possible BOC claims of violation of the nondisclosure agreements was to file the Opposition only with the Commission. WilTel asked the Commission to determine what, if any, information contained in the Opposition was competitively sensitive. WilTel has been informed today by the Commission staff that it regards Figures 1, 2 and 3 as the only information contained in WilTel's Opposition that is competitively sensitive and must be redacted under the terms of the nondisclosure agreements and the SCIS Disclosure Order.

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List A B C D E

As noted above, WilTel disagrees that any part of the Opposition, including those three Figures, can reasonably be considered "competitively sensitive." We reserve this position here. Nevertheless, WilTel has agreed to comply with the staff's request by filing its Opposition, with the redactions requested by the staff, on the public record. To the extent necessary, WilTel requests Commission leave to make this filing.

Please address any questions concerning this matter to the undersigned.

Respectfully submitted,

Joseph W. Miller /KAH

Joseph W. Miller

cc (w/encl.): All ONA Parties

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Federal Communications Commission
Office of the Secretary

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of	)	
	)	
Open Network Architecture Tariffs	)	CC Docket No. 92-91
of Bell Operating Companies	)	

TO THE COMMISSION:

OPPOSITION TO DIRECT CASES

OF

WILTEL, INC.

October 15, 1992

Joseph W. Miller
Its Attorney

TABLE OF CONTENTS

SUMMARY

The current ONA process fails to achieve the Commission's goals. Reported BSE costs are more a function of BOC decisions than they are of the underlying costs of unbundled features. The process for reviewing SCIS and SCM also is inadequate.

More specifically, WilTel establishes that:

1. The average costing methodology is inappropriate for purposes of unbundling subelements and establishing efficient prices.
2. The redaction of vital cost information and the lack of an audit to determine the validity of the parameter values used in the SCIS/SCM process raise serious concerns as to the accuracy of the results.
3. The review of the SCIS/SCM cost modelling uses misleading statistical measures and does not provide an adequate review either of the modelling process itself, or of the sensitivity of model results to changes in specific input parameters.
4. The BOCs have excessive latitude in determining BSE and BSA prices, by virtue of their control over numerous discretionary model inputs. For example, it appears that the choice of the SCIS model used and of the central offices to be included in the cost studies can be used to achieve higher or lower ANI costs, at the discretion of each BOC.
5. The BOCs may have incentives to use their discretion to manipulate ANI prices.

Unbundling of ANI delivery, by far the most significant BSE, accounts for over two-thirds of all BSE revenues. Mandatory unbundling of ANI will enable the BOCs to strategically price ANI services in an anti-competitive manner, especially if the BOCs continue to be granted wide latitude in pricing and costing methodology.

In the case of some BSEs, the incremental cost of the unbundled feature is so small as to render unbundling an economically futile exercise. If manipulation of the costing methodology and inappropriate overhead loadings are required to make the unbundling seem meaningful, the Commission should not mandate unbundling.

The review of SCIS and SCM left the following key questions unresolved:

1. Did each BOC apply costing principles and assumptions consistently across all ONA features?

2. Do the underlying switch prices/discounts accurately reflect the prices/discounts paid by the BOC?

3. Do the network parameters used to estimate cost relationships accurately reflect the configuration and usage of BOC local networks?

If the Commission determines IXCs must purchase ANI as a separate service, steps must be taken to ensure that efficient, non-discriminatory rates are realized. It should mandate use of long-run marginal cost and prohibit use of outdated SCIS models and prices, old data, embedded technology, and wide-ranging input assumptions. An independent audit is required to determine the validity and authenticity of the input data used by the BOCs in the costing process and concerned parties should have access to materials relevant to reviewing the costing process.

Finally, the Commission should consider whether it makes economic sense to require separate pricing for a service that is a necessary (for all or almost all IXCs), but virtually costless, element of access services.

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OCT 20 1992

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Office of the Secretary

BEFORE THE
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WASHINGTON, D.C. 20554

In the Matter of	)	
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Open Network Architecture Tariffs of Bell Operating Companies	)	CC Docket No. 92-91
	)	

TO THE COMMISSION:

OPPOSITION TO DIRECT CASES

OF

WILTEL, INC.

WilTel hereby respectfully submits its Opposition to Direct Cases as provided for in the Commission's Order Designating Issues for Investigation in the above-captioned proceeding released on April 16, 1992.[1]

I. Introduction

The central issues under investigation in this proceeding are the unbundling, costing and pricing of Basic Service Elements under the directives in the Part 69 ONA Order.[2] The Part 69 Order directed that "economically efficient prices

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[1]Hereinafter referred to as the "Designation Order."

[2]Amendments of Part 69 of the Commission's Rules Relating to the Creation of Access Charge Subelements for Open Network Architecture, CC Docket No. 89-79, Report & Order, Order on Reconsideration, & Supplemental Notice of Proposed Rulemaking, 6 FCC Rcd 4524 (1991) (Part 69 ONA Order).

[which] reflect the manner in which costs are incurred"[3] be established for BSEs. The Commission also noted that "we want to prevent LECs from setting excessively high rates and to protect against unreasonably discriminatory pricing".[4] Finally, the Commission envisioned ONA as providing "building block" services, which all customers can use as components of the services they provide.[5]

WilTel is concerned that the ONA unbundling process, as it has evolved to this time, fails to achieve these goals. Most importantly, WilTel has concluded, after extensive review of the available materials, that excessive latitude in costing methodology has been granted the BOCs to the extent that reported BSE costs are far more a function of BOC discretionary decisions than they are of the actual underlying costs of unbundled features. The methods employed in costing and pricing, as well as the process adopted for reviewing the adequacy of such methods, are inadequate and, in some cases, plainly incorrect. Moreover, they do not appear to achieve the Commission's goals either in ensuring rates which promote efficiency or in preventing the BOCs from using the ONA process to establish excessive rates and engage in price discrimination.

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[3]Part 69 ONA Order ¶ 50.

[4]Id. ¶ 38.

[5]Filing & Review of Open Network Architecture Plans, Phase I, (BOC ONA Order), 4 FCC 1, Rcd ¶¶ 70-72 (1988).

In the following comments WilTel will establish that:

1. The costing methodology used by the most of the BOCs in establishing rates is inappropriate for purposes of unbundling subelements and establishing efficient prices.

2. The redaction of vital cost information and the lack of an audit to determine the validity of the actual parameter values used in the cost modelling process raise serious concerns as to the accuracy of the cost results.

3. The Arthur Anderson review of the SCIS/SCM cost modelling process uses misleading statistical measures and does not provide an adequate review either of the modelling process itself or of the sensitivity of model results to changes in specific input parameters.

4. The BOCs have excessive latitude in determining BSE and BSA prices, by virtue of their control over numerous discretionary model inputs.

The unbundled feature which gives rise to WilTel's specific concerns is Calling Billing Number Delivery (CBND), also called Automatic Number Identification (ANI). ANI is an "essential building block" of the access service which IXCs currently purchase from the BOCs because it provides information essential to the IXC billing process.

In addition, ANI is by far the most significant BSE currently unbundled, accounting for 68% of all BSE revenues.[6] As WilTel and other IXCs have demonstrated in other proceedings, mandatory unbundling of ANI will enable the BOCs to strategically price ANI services in an anti-competitive manner.[7] This is especially true if the BOCs continue to be granted tremendous latitude in pricing and costing

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[6]If Ameritech's "Called Number Directory Number Delivery via 900 NXX" is omitted, then ANI accounts for 95% of total estimated BSE revenues.

[7]E.g., Petition for Reconsideration of WilTel, Inc., CC Docket Nos. 89-79, 87-313, Sept. 21, 1992, at 18-19.

methodology. Due to the importance of this BSE, the comments below place special emphasis on analysis of its pricing.

Finally, WilTel suspects that in the case of some BSEs, the incremental cost of the feature unbundled is so small as to render unbundling a useless exercise. If manipulation of costing methodology and inappropriate overhead loadings are required to make the unbundling seem meaningful the FCC should not mandate the unbundling.[8] Furthermore, when unbundling is utilized, additional measures must be taken to ensure that subelement rates promote efficiency.

The Commission's procedural schedule for the review of the BOC's ONA tariffs sets forth four basic issues for investigation:

1. The adequacy of the redacted cost models and the discretionary disclosure procedures.
2. The independent auditor's review of the cost models.
3. The "reasonableness" of the cost models used to develop investment figures for ONA services.
4. The BOC's direct cases.[9]

These comments address all four issues. The first section critiques the BOC's use of costing procedures as a basis for setting rates in the context of the Commission's ONA pricing goals and the information presented in the BOCs' direct cases. That section focuses directly on the issue of the BOCs' ability to manipulate the results of the cost

[8]ANI unbundling may be the economic equivalent of an upscale restaurant establishing separate charges for salt and pepper.

[9]A separate review of the direct cases is ongoing.

regarding the adequacy of the redacted cost models and disclosure procedures are addressed. Third, the Arthur Andersen review of the SCIS/SCM model and its results are discussed and analyzed. Finally, WilTel reviews the efficacy of the current costing process and provides recommendations for its reform.

II. BOC Discretion in the Choice and Execution of Costing Methodology

A. Average vs. Marginal Costs

Economically efficient pricing[10] requires that prices be set in accordance with the principles of cost-causation, such that they reflect the additional costs associated with the addition of a specific feature. For purposes of efficiently pricing individual unbundled switch features like ANI, the cost methodology should estimate the difference between the total costs of the switch when the feature is present and the total costs of the switch when the feature is absent. This difference is the marginal or incremental cost of the feature, and is the only method which accurately determines cost figures in a manner consistent with how costs are actually incurred.

The average costs used in the BOC filings are obtained by assigning services to categories and apportioning total common costs and overheads among these categories. Such assignments are necessarily arbitrary because common costs are not

[10]This is one of the goals of ONA. Part 69 ONA Order ¶¶ 70-72.

directly assignable to any particular investment. Hence, average costing does not establish causal relationships between services produced and the costs incurred in their production. It should be remembered that ANI and other BSEs are not services like MTS, WATS, etc. Rather, they are subelements of services to be purchased in conjunction with other services. While recovery of common costs through service prices is appropriate, distortions will arise if the BOCs attempt to recover such costs through increased usage-sensitive prices on subelements of those services.

Southwestern Bell correctly analyzes the problem in its Direct Case[11] in defending its use of incremental costing methodology within the switching cost information system (SCIS):

> The marginal investment version of SCIS produces direct incremental costs appropriate for a long run incremental cost study. The average investment version of SCIS produces allocated investment which is not economically meaningful in developing [the] long run economic cost of a service.
>
> The marginal cost version of SCIS produces the direct investment associated with the service under study. It does this by identifying the investment directly used by a given service.[12]
>
> It would be inappropriate to use the average investment version of SCIS to produce economic cost results for a service because the average version of SCIS includes allocated shared investment which is not properly assigned to any given service. Thus the proper long run incremental costs associated with a service cannot be identified except by using the marginal version of SCIS.

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[11]Direct Case, at 2.

[12]This investment is an appropriate basis for developing cost because it identifies investment directly caused by the service.

To the extent that the current review process has allowed WilTel access to the SCIS model,[13] it appears that the SCIS marginal cost methodology employed appropriately determines long-run incremental costs. Moreover, the incremental costing method is the only method "consistent with the Commission's ONA requirements and policies"[14] that prices be set in a manner which promotes efficiency, prevents monopoly pricing and price discrimination,[15] and is consistent with the principles of cost causation.[16] Therefore, the long-run incremental costing methodology is the only appropriate basis for formulating BSE rates currently available.

The Designation Order could be interpreted as concluding that the relatively low incremental cost of ANI and other BSEs indicate that incremental costing might be inappropriate. The Designation Order[17] directed BellSouth and Southwestern Bell, the only carriers which used the SCIS long-run marginal cost option, to show what their rates would have been had they adopted an average costing methodology instead. In fact, precisely the opposite line of questioning should be pursued;

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[13]Because of the limited review of SCIS, the inadequacies of the Arthur Andersen study and problems relating to inputs and BOC discretion, even the incremental costing results may be inaccurate. These issues should be investigated further in this proceeding.

[14]Id.

[15]ONA Part 69 Order ¶¶ 38-41.

[16]Id. ¶ 50.

[17]Designation Order ¶ 2.

that is, the Commission should ask what BSE rates would have been had all the BOCs adopted long-run marginal costing.

The average cost information provided by BellSouth and Southwestern Bell is instructive in one important respect: it provides the only empirical evidence available concerning the huge differences (as measured by SCIS) between incremental and average costs. In the case of Southwestern Bell, incremental costs for ANI were measured at $0.000077 per call[18] while Arthur Andersen estimates that average costing would yield a $0.000207 per call figure, an increase of 169%. For BellSouth, costs rose 200% from $0.00006 to $0.00018 per call.[19] The rates of Southwestern Bell rise by 529% under average costing while those of BellSouth rise by 189%. The magnitude of these differences is probably indicative of those which would be obtained by other carriers if they were to utilize incremental costing methodology.

This inappropriate choice of average costing methodology does not achieve the Commission's goals of efficient, non-discriminatory prices, but rather results in artificially high rates for BSEs, especially ANI. As discussed below, the appropriately measured incremental costs of certain BSEs may be so diminutive that they are smaller than the cost of unbundling and billing for the BSE.

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[18]Arthur Andersen, Appendix 23, at 3. It was not possible to discern the change in Southwestern Bell's costs from the data supplied in its Direct Case.

[19]BellSouth Direct Case, Appendix, Exhibit B, at 1.

In addition to allowing BOCs the choice of using an inappropriate costing methodology, the broad latitude given the BOCs has allowed some of them to further distort the costing process. Most importantly:

1. Some BOCs have included technologies not reflective of future incremental investments.

2. Some BOCs use a subset of their offices as the sample for their SCIS modelling which does not properly reflect either that BOC's current technology and plant utilization mix, nor its forward-looking investments.

3. BOCs inappropriately apply loading factors to the costs of BSEs.

The remainder of this section addresses each of these problems separately.

B. Inclusion of Technologies Not Reflective of Future Investments.

As discussed at length above, incremental costing is the appropriate methodology for determining BSE costs. Long-run marginal costing (LRMC), as identified in the SCIS model takes into account the fact that most switching investments are "fixed." That is, they do not vary unless additional usage exhausts the capacity of the switch and additional investment is required.[20] Therefore, the marginal costs of a switching feature are essentially zero unless the addition of the feature induces the BOC to add switching capacity investment. In this sense LRMC is "forward looking": Firms facing capacity exhaustion in the future will generally upgrade or

[20]See Arthur Andersen, at 62.

replace their switching equipment with the latest technology available.

In the Designation Order, the Commission required the BOCs to respond to the question, "Should 1ESS and/or 1AESS switch costs be included in the development of BSE rates?"[21] The answer to this question lies in the logic of cost causation. 1ESS and 1AESS represent older analog technologies generally due for replacement in the near future. All of the BOCs which addressed the issue of replacement technology implied that it would be 100% digital, and that analog switching technology should not be included in the study sample. As Bell Atlantic properly notes (even though it utilized average costs):

> To develop forward-looking costs, SCIS must base its cost calculations on the characteristics of "model offices" that are representative of planned switch deployment.[22]

BellSouth adds:

> Because BellSouth is deploying only digital switch investment on a going-forward basis, only digital switch investment was included [in the BellSouth SCIS study]. As a consequence, the incremental investment is not representative of embedded investment,[23] . . . .
>
> . . . .
>
> This is appropriate . . . because a consideration of embedded investment would form an inappropriate basis for determining the price floor.[24]

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[21]Designation Order ¶¶ 3, 4.

[22]Bell Atlantic Direct Case, at 1-2.

[23]BellSouth Direct Case, at 24-5.

[24]Id. at 25 n.37.

U S WEST, noted that "all future switch replacements are assumed to be 100% digital technology,"[25] and Southwestern Bell only included digital offices in its ANI cost studies. Unfortunately, the remainder of the BOCs improperly included substantial amounts of analog investment in their studies, with the effect of inflating cost estimates well above their economically meaningful levels.

Pacific Bell claims that:

> Because Pacific Bell still expects to utilize 1AESS switch technology during the three-year period, these incremental costs [are forward looking and] should be included in its BSE rates.[26]

This argument misses the point. Incremental costs associated with 1AESS will be incurred only if 1AESS is the upgrade or replacement technology. There are no future incremental costs associated with fixed investment undertaken in years past.

The most serious problems associated with using improper methodology are found in the Ameritech filing. To begin with, instead of using a forward-looking, or even a current, sample of its offices, Ameritech relies upon office technology mix data obtained in 1989. It is interesting to note that, while its technology mix data are backward-looking, when considering the cost of money Ameritech adopted a much more futuristic perspective:

> Because the BSE investments were developed using forward-looking cost methodology, it is appropriate to use a

[25]U S WEST Direct Case, Appendix A, at 1.

[26]Pacific Bell Direct Case, at 6.

forward-looking cost of money factor when determining annual costs.[27]

The BOCs utilizing analog technology in their studies attempt to deemphasize the importance of this improper technology weighting by stating, in the words of Ameritech, "[i]t is important to note that although some BSE costs decrease, several increase significantly, contrary to the Bureau's implicit assumption in the Designation Order."[28] While it is true that some BSE costs estimated by Ameritech do rise when the appropriate technology mix is utilized, the revenue associated with all of those BSEs combined totals less than $503,000, while the revenues associated with BSEs whose rates would fall totals over $41 million.[29]

Table 1 utilizes estimated revenues from the BOC TRPs (Tariff Review Plans)[30] and the rate changes estimated by the BOCs in their Direct Cases when 1AESS and 1ESS switches were removed from the study sample. The Table demonstrates that, even when most of the BOCs retain an average cost methodology,

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[27]Ameritech Direct Case, at 4. Assume that ANI is generated from a switch purchased in 1969 when the BOC's cost of capital was 8%, and that the switch will be replaced in 1994 when the cost of capital is projected to be 10%. Ameritech's model apparently would apply the higher capital cost retroactively to the older switch, thereby combining a backward-looking cost factor with a forward-looking one.

[28]Ameritech Direct Case, at 6; see also Pacific Bell Direct Case, at 6; U S WEST Direct Case, at 6; NYNEX Direct Case, at 4.

[29]One clear truth in Ameritech's discussion of technology mix is its statement that "there is no direct relationship between the four pricing goals of ONA and the assumption to include 1AESS investment. Ameritech Direct Case, at 6.

[30]These reports are summarized in Arthur Andersen, at 28-29.

including a forward-looking technology mix reduces total BSE revenues by over $25 million or about 61%.

Table 1

BOC	REVENUE	REVENUE
	W/ ANALOG	W/O ANALOG
AMERITECH	$26,600,931	$ 7,990,694
BELL ATLANTIC	3,209,090	2,437,727
BELL SOUTH	N/A	N/A
NEVADA BELL	N/A	N/A
NEW ENGLAND TELEPHONE	3,16,2245	1,414,373
NEW YORK TELEPHONE	6,252,067	2,869,245
PACIFIC BELL	2,403,503	1,364,214
SOUTHWESTERN BELL	N/A	N/A
U S WEST	N/A	N/A
TOTAL BSE REVENUE	41,627,836	16,076,253
Revenue Decrease		25,551,583
% Revenue Decrease		61.38%

C. Improper Overhead Loadings

The Commission specifically asked carriers with apparently nonuniform overhead loadings to explain why such loadings were justified. Overheads are associated with the construction, maintenance and operation of the central office, not with specific switch features. From the perspective of efficient pricing it is difficult to understand why the unbundling of features from a switch should increase the "tax" one pays to utilize certain switch features.

Even if the Commission determines that overhead loadings on BSEs are an appropriate mechanism for cost recovery, the magnitude of these loadings should not prejudice the Commission's determination as to the appropriateness of unbundling. Once again, the principle of cost/benefit analysis should apply to the unbundling of BSEs. If, for example, the incremental costs of a BSE are negligible but there are significant costs associated with unbundling, then no unbundling should occur. The assignment of excessive overhead loadings can make unbundling appear justified on the basis of revenues even when underlying costs show such unbundling to be inefficient.[31]

As shown in Table 2, two carriers, BellSouth and U S WEST, have overhead loadings for ANI which actually exceed the underlying costs of the service.[32] With the exception of Nevada Bell, all carriers derived at least 25% of their BSE cost estimates from overhead loadings.

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[31]To return to an earlier analogy, if the cost of establishing separate rates and charges for salt and pepper exceed the incremental costs of those condiments, a restaurant would not rationally establish unbundled rates. This would be true even if the "fully loaded" costs of the salt and pepper included sufficient allocations of overhead (e.g., property lease costs and utilities) to make separate charges appear rational.

[32]See also Designation Order, Attachment A.

The post-SCIS ratemaking process can also be used to inflate prices, thereby conveying the impression that unbundling is somehow justified by cost. For example, Nevada Bell notes explicitly that the costs of ANI were so low that it had to increase rates above cost in order to "lower the unbundled Local Switching Rates."[33] In other words, the costs associated with ANI were so minuscule that substantial markups were required to obtain a rate significantly different from zero.

Table 2

OVERHEAD LOADINGS	
BOC	**Ratio: (overhead/direct loading)**
Ameritech	0.6177
Bell Atlantic	0.2785
BellSouth	2.1667
NYTel	0.75
NETel	0.5863
PacTel	0.2615
Nevada	0.1866
SWBT	0.2237
U S WEST	1.3396

D. Switch Sampling

As discussed above, the inclusion of analog switches in the study samples of a number of BOCs is inappropriate. In addition the vintage and selection of the study samples also reduce the usefulness of the cost data. SCIS can either

[33]Nevada Bell Direct Case, at 3-4.

estimate costs for the entire universe of deployed switches or a selected sample. The information provided is insufficient to determine whether the samples accurately reflects actual network deployment.

The basis for the cost estimation is open to manipulation at two levels. First, there is the question of the sampling -- is it random, is it representative, or is there a discernable pattern of inclusion/exclusion? For example, Pacific Bell included all of its switches except those whose deployment is so recent that traffic data was not available. Excluding newer switches is likely to bias cost estimates, especially if older analog technology is included.

Furthermore, the underlying data used in the models come from a variety of time periods. Ameritech, for instance, allegedly modelled all of its offices, but the information may be so old as to introduce bias. Table 3 illustrates the vintage of the underlying data and the sampling strategy used by each LEC.

Table 3: Sample Size

BOC	SAMPLE	DATA VINTAGE
NYNEX	73% of Offices	1992
Bell Atlantic	60% of Offices	1991 - 1993
Bell South	95% of Offices	1993
Ameritech	All Offices	1989
Southwestern	All Offices	1993
U S WEST	All Offices	1991
Pacific	78% of Offices	1990

The only solution to the potential problem of "strategic" switch selection is to require that the full complement of digital switches be used for cost estimation. BOCs which can justify a waiver of this rule should be required to show that the statistical loss in accuracy is worth the cost savings from performing the study with a smaller sample size.

E. Incentives to Manipulate ANI Costing Results

Apart from the illogic of paying several times the rate for ANI provided by one BOC as is charged by another BOC with a similar mix of switch technologies, the ability to manipulate SCIS cost outputs creates the potential for abuse. A BOC that believes that the volume of calls in its territory will increase faster than the volume of minutes[34] will have

[34]I.e., if the duration of the average call will tend to decrease.

an incentive to overprice ANI. Although the combination of ANI and basic access service may superficially appear to be designed so as to achieve revenue neutrality when compared to feature group services, a relatively high ANI charge would, if the BOC's prediction holds true, result in increased revenues for the same service. Conversely, a BOC that foresees a greater increase in minutes than in calls will have an incentive to underprice ANI.

Additional incentives may exist if BOCs can manipulate ANI to encourage use of their unregulated billing and collection services or to gain advantages vis à vis their long distance competitors (especially if the BOCs are allowed to provide interLATA services in the future). The combination of monopoly power, rate flexibility and existence of incentives to abuse the flexibility creates the near certainty that the BOC discretion under SCIS/SCM will result in manipulation of "costs."

III. Adequacy of the Review and Disclosure Process

A. The Disclosure Process

In order to determine whether the cost modelling process has been carried out in an accurate and procedurally correct manner, an extensive review of input data, costing methods and reporting is required. A reasonable review process would resolve the following questions:

1. Did each BOC apply costing principles and assumptions consistently across all ONA features?

2. Do the underlying switch prices/discounts accurately reflect the prices/discounts paid by the BOC?